

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

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Investigation by the Department of Telecommunications and Energy on its own Motion into the Appropriate Pricing, based upon Total Element Long-Run Incremental Costs, for Unbundled Network Elements and Combinations of Unbundled Network Elements, and the Appropriate Avoided Cost Discount for Verizon New England, Inc. d/b/a Verizon Massachusetts' Resale Services in the Commonwealth of Massachusetts

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D.T.E. 01-20

**SURREBUTTAL TESTIMONY OF RICHARD B. LEE**

**ON BEHALF OF AT&T AND WORLDCOM**

December 17, 2001

## **Surrebuttal Testimony of Richard B. Lee in D.T.E. 01-20**

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**I. INTRODUCTION**

**Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

A. My name is Richard B. Lee. I am Vice President of the economic consulting firm of Snavelly King Majoros O'Connor & Lee, Inc. ("Snavelly King"). My business address is 1220 L Street, N.W., Suite 410, Washington, D.C. 20005.

**Q. ARE YOU THE SAME RICHARD B. LEE WHO SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING ON MAY 8, 2001, AND REBUTTAL TESTIMONY ON JULY 18, 2001?**

A. Yes, I am.

**Q. DID YOUR DIRECT TESTIMONY CONTAIN A DESCRIPTION OF YOUR BACKGROUND AND EXPERIENCE?**

A. Yes, it did.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. In this surrebuttal testimony, I will respond to the rebuttal testimony of Verizon-Massachusetts ("Verizon-Mass") witness Allen E. Sovereign ("Sovereign Rebuttal") on the subject of the depreciation parameters appropriate for use in Total Element Long-Run Incremental Cost ("TELRIC") calculations.

**Q. WHAT DO YOU CONCLUDE?**

A. I conclude that Mr. Sovereign's rebuttal testimony is unpersuasive. The projection lives last prescribed by the Federal Communications Commission ("FCC") for Verizon-Mass should be used in developing unbundled network element ("UNE") rates.

**II. IT WOULD BE UNREASONABLE TO USE THE LIVES PROPOSED  
BY MR. SOVEREIGN IN THIS PROCEEDING**

**Q. PLEASE EXPLAIN THE RELEVANCE OF THE FCC'S DEPRECIATION  
STATEMENTS IN ITS SBC 271 ORDER TO THIS PROCEEDING.**

A. Mr. Sovereign notes that the FCC states in its SBC 271 Order that the states do not have to use the FCC's prescribed lives for the pricing of UNEs.<sup>1</sup> In stating this, the FCC was merely acknowledging that other lives are not necessarily unreasonable. The FCC stated:

Our rules state that the depreciation rates must be economic. While it would be reasonable for a state to follow the depreciation rates the Commission has set for regulation of SWBT's interstate services, as Kansas and other states have done, other approaches are not necessarily unreasonable.<sup>2</sup>

Consistent with this statement, it would be reasonable for the Department to adopt the FCC's depreciation prescription for Verizon-Mass. As I explained in my rebuttal testimony, however, the lives proposed by Mr. Sovereign are significantly shorter than those prescribed by the FCC. It follows, therefore, that it would not be reasonable to adopt Mr. Sovereign's proposal in this proceeding.

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<sup>1</sup> Sovereign Rebuttal at 1-2, citing Joint Application by SBC Communications Inc., Southwestern Bell Telephone Company, and Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance for Provision of In-Region, InterLATA Services in Kansas and Oklahoma, CC Docket No. 00-217, Memorandum Opinion and Order FCC 01-29, released January 22, 2001 ("SBC 271 Order").

<sup>2</sup> SBC 271 Order, ¶ 76 (footnotes deleted).

1           **III.     THE LIVES PRESCRIBED BY THE FCC FOR VERIZON IN OTHER**  
2           **STATES ARE NOT RELEVANT**

3  
4   **Q.     ARE THE LIVES PRESCRIBED BY THE FCC FOR VERIZON IN OTHER**  
5   **STATES RELEVANT TO THIS PROCEEDING?**

6   A.    No. Mr. Sovereign states that in 1999 the FCC prescribed a life for digital  
7       switching in “Verizon’s Virginia territory” which was shorter than the low end of  
8       the FCC’s range.<sup>3</sup> He further states that the FCC “recently prescribed the bottom  
9       of the FCC range for the projection lives in Verizon’s Washington, Oregon, Idaho  
10      and Hawaii territories.”<sup>4</sup> In fact, the FCC did not prescribe the bottom of its digital  
11      switching range for any of these states.<sup>5</sup>

12           In any case, Verizon chose not to file for new FCC prescriptions in  
13       Massachusetts. The Department should not speculate on what the FCC might  
14       have done had Verizon-Mass exercised its right to seek FCC represcription. To  
15       adopt shorter lives in this proceeding would be to effectively “reward” Verizon-  
16       Mass for its failure to seek FCC represcription.

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<sup>3</sup> Sovereign Rebuttal at 3. The FCC prescription referred to by Mr. Sovereign was for GTE South-Virginia. GTE South-Virginia accounted for less than 15 percent of Verizon’s Virginia investment in 1999.

<sup>4</sup> Id.

<sup>5</sup> The digital switching lives prescribed were: Washington, 13.5; Oregon, 13.0; Idaho, 13.5; and Hawaii, 14.0.

**IV. MOST STATES HAVE ADOPTED FCC PRESCRIBED LIVES, OR  
SIMILAR STATE PRESCRIBED LIVES, IN UNE PROCEEDINGS**

**Q. HAVE MANY STATES CHOSEN TO USE LIVES SIGNIFICANTLY SHORTER  
THAN THOSE PRESCRIBED BY THE FCC IN UNE PRICING  
PROCEEDINGS?**

A. No. In response to information requests, Mr. Sovereign lists only five states as adopting lives shorter than the FCC's prescribed ranges.<sup>6</sup> In my Direct Testimony, I noted 20 states, in addition to Massachusetts, that chose FCC prescribed lives, or similar state prescribed lives. The state prescribed lives adopted were generally equal to or longer than the FCC's lives. Attachment 1 compares the lives approved by those state commissions that adopted state prescribed lives to the lives prescribed by the FCC for the major accounts in dispute.

**V. PLANT ADDITIONS AND RETIREMENTS WERE NOT MORE STABLE  
20 YEARS AGO**

**Q. MR. SOVEREIGN CLAIMS THAT PLANT ADDITIONS AND RETIREMENTS  
WERE MORE STABLE 20 YEARS AGO.<sup>7</sup> IS HE CORRECT?**

A. No. Attachment 4 to my Direct Testimony displayed additions and retirements since 1946 for all local exchange carriers ("LECs") since 1946. Attachment 2 to this testimony updates this data to reflect final reports for the year 2000. The following table compares additions and retirements in the 1970's to those in the 1990's for all telephone carriers providing full financial reports to the FCC:

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<sup>6</sup> Verizon response to AT&T-VZ 24-2 and AT&T-VZ 24-3.

<sup>7</sup> Sovereign Rebuttal at 5.

	<u>1970's</u>	<u>1990's</u>
Average Addition Rate	13.5	7.8
Range	12.0-14.4	7.2-8.2
Average Retirement Rate	3.9	4.3
Range	3.2-4.6	3.1-5.5

Plant addition rates in the 1990's were not only significantly less than in the 1970's, but the range of annual rates was narrower. Plant retirement rates in the 1990's show little change from the 1970's. The stability of this data is impressive and belies Mr. Sovereign's claim that plant additions and retirements are more variable today.

**VI. THE THEORETICAL RESERVE MEASURE HAS NOT BEEN ABANDONED**

**Q. WAS THE THEORETICAL CALCULATION OF THE DEPRECIATION RESERVE AS AN ADEQUACY MEASURE ABANDONED IN 1980, AS MR. SOVEREIGN STATES?<sup>8</sup>**

A. No. Mr. Sovereign is correct that the FCC introduced forward-looking depreciation practices in 1980.<sup>9</sup> But the FCC continues to require the submission of theoretical reserve calculations to determine the adequacy of reserves and its depreciation process overall.

Attachment 3 to this Surrebuttal testimony is a copy of the filing made by Verizon-Mass calculating reserves as of January 1, 2001. It reveals a reserve

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<sup>8</sup> Id.

<sup>9</sup> Id.

1 surplus (i.e. – book minus theoretical) of about \$370 million. As I discussed at  
2 length in my Direct Testimony, the depreciation reserve is a good indicator of the  
3 adequacy of the depreciation process. Verizon-Mass's reserve surplus indicates  
4 that the lives prescribed by the FCC have been forward-looking and appropriate.

5 **VII. CONCLUSION**

6  
7 **Q. HAVE YOU BEEN PERSUADED TO CHANGE YOUR TESTIMONY BY MR.**  
8 **SOVEREIGN'S REBUTTAL TESTIMONY?**

9 A. No. I continue to recommend that the lives last prescribed by the FCC for  
10 Verizon-Mass be used in this proceeding.

11 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

12 A. Yes, it does.